

**Glenn L. McCullough, Jr.**

**Chairman**

**Tennessee Valley Authority**

**Testimony of  
Chairman Glenn L. McCullough, Jr.  
Tennessee Valley Authority  
Before the  
House Transportation and Infrastructure Subcommittee on  
Water Resources and the Environment  
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**Opening Statement**

Good afternoon. My name is Glenn McCullough and I have served as TVA's Chairman since July 19, 2001. On behalf of the TVA Board of Directors and employees, I would like to thank Chairman Duncan, Ranking Member Johnson, and all the Members of the Water Resources & the Environment Subcommittee for the opportunity to be here today.

**Overview of TVA and its Mission**

Created in 1933 by the TVA Act, TVA is a wholly owned corporation of the United States government. TVA is entirely self-financing, receiving no funding from Congress. TVA provides electric power to more than 8.5 million residents of the seven-state region that makes up the Tennessee Valley. Through 158 local power distributors and 62 directly served industrial and federal customers, TVA continues to meet the power needs of the region.

TVA's mission is to deliver excellence and value in three key areas: energy, the environment and economic development. As the nation's largest public power provider, TVA supplies affordable, reliable power; manages a thriving river system; and supports sustainable economic development.

**2004 Operational Highlights**

In Fiscal Year 2004, TVA's power system achieved its best performance ever, meeting an all-time power demand of 29,966 MW on July 13, 2004. In 2004, TVA delivered a total of 168 billion kWh of electricity, while achieving the lowest rate of customer interruption in history. To meet this unprecedented demand, TVA used its mix of fossil, nuclear, hydro and renewable energy sources and a strong, reliable transmission system. TVA's unique mix of coal, nuclear, hydroelectric, and natural gas-fired generation ensures the reliability of the TVA system. TVA's electric power system currently includes 11 coal-fired plants, three nuclear plants, 29 hydro-power plants, one pumped-storage plant and six combustion-turbine plants.

It was a good year for fossil generation. Our fossil units continued to set production records with new records set for continuous operations. And the reliability of the fossil system over the summer was the highest in TVA's history.

As an important part of TVA's diverse generation mix, TVA is committed to pursuing nuclear energy as a safe, low-cost, emissions-free method of power generation. The TVA Board and its employees are proud to be bringing online the nation's first nuclear reactor of the 21<sup>st</sup> Century. We are on schedule and on budget to restart Browns Ferry Unit 1 near Athens, Alabama by May 2007. This will bring our number of operating nuclear units to six and add another 1,280 MW to our generating capacity. The cost for restarting this nuclear unit (approximately \$1.7 billion) is expected to be recovered in only seven years.

Additionally, TVA is a part of two consortia studying next generation nuclear technologies. One group is studying the possibility of pursuing an Advanced Boiling Water Reactor (ABWR) at TVA's Bellefonte site near Hollywood, Alabama. Currently, this technology is being used successfully in Japan, and TVA is pleased to be a part of the group working to bring that technology here to the U.S. The second group, NuStart, is considering two reactor designs: Westinghouse's "Advanced Passive 1000" reactor and General Electric's ESBWR, another type of boiling water reactor. NuStart is also considering Bellefonte as a potential site.

It was also a good year for hydroelectric generation. Hydro automation and modernization efforts on TVA units continued to reduce costs, improve efficiency and boost generating output. TVA's hydro modernization program is scheduled to be completed in 2015. At that point, TVA will have increased system capacity by more than 750 MW of emission-free generation.

TVA expanded its portfolio of clean, renewable energy through an agreement with Invenergy, LLC, which in late October completed installation of 27 MW of wind-powered capacity at the Buffalo Mountain site near Oliver Springs, Tennessee. This makes Buffalo Mountain the largest wind park in the Southeast.

The TVA power system is fueled by its diverse generation mix, and it is sustained by its strong transmission system. The TVA transmission system is one of the largest in North America, comprising 17,000 miles of transmission line. Over the past five years, the system has maintained 99.999 percent reliability with the lowest number of interruptions in 2004 on record.

Last year, in response to an investigation that found the major cause of the 2003 Northeast blackout to be improper right-of-way maintenance, TVA renewed its focus on removing vegetation that could come into contact with power lines. This effort resulted in a new record –176 continuous days during FY04 without a single tree-caused power disturbance.

## **2004 Financial Performance**

At the same time TVA was advancing operational records, TVA was striving to increase financial flexibility. Using the Strategic Plan issued in January 2004 as a guide to prepare for competition, TVA identified a number of cost-cutting measures. Through mostly voluntary retirements, we reduced the total number of employees and contractors by almost 1,000. Strategic business units within TVA were also asked to cut costs, and TVA's management has done an excellent job of identifying areas where we have achieved savings. In FY04, TVA reduced its total financing obligations by \$278 million – \$53 million dollars more than our target of \$225 million.

## **Fiscal Year 2006 Budget Overview**

We are projecting over \$8.1 billion in revenue for Fiscal Year 2006. TVA power sales have increased an average of three percent annually during the past decade. In FY06, TVA projects to invest more than \$1.3 billion in capital projects for the power system, including approximately \$237 million for clean air projects, \$420 million toward the recovery of the Browns Ferry Nuclear Plant Unit 1, and \$213 million for transmission system reliability projects.

TVA has funded its stewardship activities solely out of power revenues, user fees, and sources other than appropriations since the 1998 Energy and Water Development Appropriations Act. We expect to invest \$85 million in stewardship activities in Fiscal Year 2006, approximately the same level as in previous years.

TVA plans to reduce total financial obligations by \$150 million in FY06, and will also return \$46 million to the U.S. Treasury to repay the government for its initial investment of \$1.419 billion. To date, TVA has returned more than \$3.3 billion, including interest, to the U.S. Treasury.

## **Debt Reduction**

The TVA Strategic Plan identifies key areas of improvement for achieving greater financial flexibility. It further states that in order to be competitive in a changing marketplace, TVA needs to reduce debt by \$3 billion to \$5 billion over the next 10 to 12 years. The current goal is, in fact, more aggressive, aiming to reduce total financial obligations by \$5.6 billion by the end of Fiscal Year 2015.

## **Changes to TVA – SEC Reporting & Board Structure**

The Fiscal Year 2005 Consolidated Appropriations Act (the Act), passed by Congress in December 2004, included two significant changes for TVA. One of these changes will require TVA, beginning with the FY06 Annual Report, to submit its annual reports (10-Ks), quarterly reports (10-Qs), and current reports (8-Ks) to the Securities and Exchange Commission. TVA has been moving in

the direction of increasing transparency and disclosure for several years, and we support measures that make TVA more open to the public.

Additionally, this legislation includes a major change to the structure of TVA's Board of Directors. The Act will create a nine-member Board instead of TVA's current three-member, full-time Board. Board members will continue to be nominated by the President and confirmed by the Senate but will serve five-year terms instead of the current nine-year terms. The new TVA Board will hire a Chief Executive Officer to manage day-to-day operations. Currently, TVA does not have a CEO.

## **Clean Air**

As TVA delivers affordable, reliable energy to its customers, TVA is also working to improve air quality in the region by embarking on an aggressive emissions-reduction program. By around the end of the decade, TVA will have invested about \$5.6 billion to reduce emissions.

TVA has installed combustion controls on 58 of its 59 fossil units to reduce nitrogen oxide (NO<sub>x</sub>) emissions. In addition, TVA is installing Selective Catalytic Reduction (SCR) and Selective Non-Catalytic Reduction (SNCR) systems on several of these units to further reduce NO<sub>x</sub> emissions. Last summer during the ozone season, 18 SCRs were operational. And during the summer of 2004 these SCRs reduced NO<sub>x</sub> emissions by more than 70,000 tons. TVA emissions of NO<sub>x</sub> in 2004 were the lowest on record.

To reduce emissions of sulfur dioxide (SO<sub>2</sub>), TVA has installed scrubbers on 30 percent of its coal-fired capacity and switched to lower sulfur coal on many of its other units. We now are in the process of building five additional scrubbers between now and the end of the decade. Collectively, these scrubbers and additional fuel switches to lower sulfur coal will reduce SO<sub>2</sub> emissions by more than 200,000 tons per year, which will result in an 85 percent overall reduction in sulfur dioxide emissions from the TVA fossil system since 1977. As we move forward to comply with increasingly stringent NO<sub>x</sub> and SO<sub>2</sub> emission-reduction requirements, TVA also plans to make use of minimal amounts of purchased emission allowances.

In April of 2003, I had the opportunity to testify on behalf of TVA before the Senate Subcommittee on Clean Air, Climate Change, and Nuclear Safety. At that hearing, I expressed our views on clean air, and, more specifically, our support of the President's Clear Skies proposal. Our support for Clear Skies remains steadfast. We believe that Clear Skies gives the industry the ability to reliably plan for future power needs while making significant emissions reductions, which are aggressive but achievable.

## **Environmental Stewardship**

TVA continues its effective management of the Tennessee River and reservoir system, the fifth largest river system in the nation, and its 41,000 square mile watershed. TVA also manages 293,000 acres of public land for multiple public benefits, including conservation, recreation, and economic development. Over 70 percent of this land is managed for conservation purposes, including enhancement of wildlife habitat, protection of threatened and endangered species, and cultural resource protection.

During last year's hurricane season, the Tennessee Valley was inundated with record rainfall. However, TVA's integrated management of the river system successfully averted \$12 million in flood damages. To date, TVA's river operations system has averted about \$5.4 billion in flood damages Valley-wide.

In 2004, TVA completed the Reservoir Operations Study, a comprehensive two-year review of policies for operating the Tennessee River system. Significant scientific analyses were performed as part of the study to assess how a number of alternative operating policies would affect the system objectives which include navigation and flood control; electric power production; water quality protection; public land conservation and outdoor recreation. Based on the analyses and public comment on the study, TVA staff developed a preferred alternative. The new reservoir operations policy was approved in May by the TVA Board of Directors and implementation began in June 2004.

## **Economic Development**

Since TVA's inception in 1933, economic development has been at the heart of TVA's mission. TVA works aggressively to help create and retain jobs in the Tennessee Valley, and Fiscal Year 2004 was a strong year for economic development. In 2004, we helped create or retain 50,308 jobs and bring \$2.1 billion in capital investment to the Tennessee Valley. In the past three years, TVA and its economic development partners have helped attract or retain more than 145,000 jobs for Valley communities. TVA loan commitments of \$57.4 million during this time have directly leveraged \$832 million in additional investments.

Because of its regional approach to economic development, TVA is in a unique position to foster the Valley's industrial growth. We have been very successful helping attract industries such as plastics, automotive assembly and suppliers, food processing, distribution and warehousing, biotechnology, and emerging technologies. To help the region attract major automotive plants, TVA commissioned McCallum Sweeney Consulting to identify, evaluate, and certify "megasites" that would be suitable for large automotive assembly operations. Once certified, these sites hold the potential of bringing literally thousands of good jobs to the region and injecting enormous amounts of capital into local

economies. Thus far, three sites in the Tennessee Valley have been designated as megasites. These sites have already attracted interest from large industries, and we look forward to certifying more sites in the future. TVA is proud to be the driving force behind this economic development initiative.

## **Conclusion**

In conclusion, TVA is preparing for the future by reducing debt; delivering affordable, reliable electric power; engaging in an aggressive emissions reduction program; efficiently managing the Tennessee River system; and supporting sustainable economic development in the region. The year ahead poses new challenges, and TVA employees are ready to meet those challenges.

This TVA Board is committed to working with Congress, the Administration, and stakeholders throughout the region on the issues that will shape the future of the Tennessee Valley.

Thank you again for the opportunity to appear before you today, and I will be happy to answer your questions.